

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

Agri Insurance Exchange Risk Retention Group)
5825 Lawton Loop East Drive)
Indianapolis, Indiana 46216)

Examination of Agri Insurance Exchange Risk
Retention Group

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Agri Insurance Exchange Risk Retention Group, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 19, 2010, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Agri Insurance Exchange Risk Retention Group shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date

June 14, 2010

Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2555

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:

Agri Insurance Exchange Risk Retention Group
5825 Lawton Loop East Drive
Indianapolis, Indiana 46216

Examination of Agri Insurance Exchange Risk Retention Group

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Agri Insurance Exchange Risk Retention Group (hereinafter “Company”) for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 6, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 19, 2010 and was received by the Company on May 24, 2010.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Agri Insurance Exchange Risk Retention Group as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the Agri Insurance Exchange Risk Retention Group to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 14th day of June, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

AGRI INSURANCE EXCHANGE RISK RETENTION GROUP
NAIC Co. CODE 28380

As of

December 31, 2008

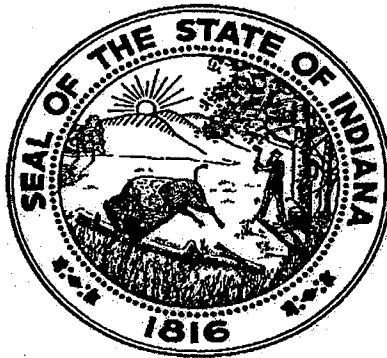


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

CAROL CUTTER, Commissioner

May 7, 2010

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Douglas Webber
Acting Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3573, an examination has been made of the affairs and financial condition of:

Agri Insurance Exchange Risk Retention Group
5825 Lawton Loop East Drive
Indianapolis, Indiana 46216

hereinafter referred to as the "Company," an Indiana domestic insurance company. The examination was conducted at the Company's corporate offices in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of December 31, 2003. The present examination was conducted by Noble Consulting Services, Inc. (Noble) covered the period from January 1, 2004 through December 31, 2008 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Merlinos & Associates, Inc. (Merlinos) was appointed by the IDOI and conducted a review of the Company's statutory reserves as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from the review performed by Merlinos.

We conducted our examination pursuant to and in accordance with the 2009 NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The working papers prepared by Arthur F. Field & Company; the Company's auditors, in their audit of the company's accounts for the year ended December 31, 2008 were reviewed. A portion of the auditor's working papers have been incorporated into the working papers of the Examiners and have been utilized for the purposed of this examination in accordance with the provisions contained in the Handbook.

HISTORY

The Company is an Indiana inter-insurance reciprocal and is managed by Agri Insurance Exchange, Inc., its Attorney-in-Fact. The Attorney-in-Fact was incorporated on September 8, 1986 and was issued an inter-insurance certificate of authority by the State of Indiana on February 25, 1987. The Company is owned by its member cooperatives, which own stock of the Attorney-in-Fact. Only agricultural cooperative associations which have an insurance policy with the Company may purchase stock or remain stockholders of the Attorney-in-Fact. The Company currently has member owners in Indiana, Ohio, Michigan, Kentucky, and Illinois.

The Company's mission is to provide professional insurance service to the cooperative agri-business community, particularly in the environmental protection area, through effective risk management, unique insurance and claim service, and instilling "safety awareness" in the operation of all participating member businesses.

CAPITAL AND SURPLUS

The Company is owned by its members and as such has no authorized, issued, or outstanding common stock.

TERRITORY AND PLAN OF OPERATION

The Company is a licensed Risk Retention Group incorporated in the State of Indiana and registered in Illinois, Kentucky, Michigan, and Ohio. In 2008, the largest percentages of direct premiums written were from IN (58.86%) and OH (34.78%).

The Company issues liability insurance to members of their farm co-ops that cannot receive this type of insurance in the normal commercial marketplace. In 2008, they had 39 member co-ops in the five states as follows: IN – 18, OH – 17, IL – 2, MI – 1, and KY – 1.

GROWTH OF THE COMPANY

The following exhibit depicts the growth of the Company throughout the examination period.

Year	Admitted Assets	Liabilities	Policyholder Surplus	Premiums Written	Net Income
2008	\$ 9,643,868	\$ 2,045,522	\$ 7,598,346	\$ 391,272	\$ (415,937)
2007	10,930,685	1,566,256	9,364,429	376,894	62,663
2006	10,135,456	974,781	9,160,675	343,450	115,108
2005	9,297,744	872,408	8,425,336	325,724	58,526
2004	8,496,202	892,302	7,603,900	319,210	6,560

For the period 2007-2008, admitted assets, policyholder surplus, and net income show reductions as a result of the fluctuations in the stock market. Since 2004, there has been a yearly increase in premiums written. There are no known trends that have had, or that the Company reasonably expects will have, a material favorable or unfavorable impact on net revenues or net income in future periods.

MANAGEMENT AND CONTROL

Directors

The Company's Articles of Incorporation provide that the Board of Directors shall be composed of an odd number of Directors, not less than five (5) nor more than nine (9). The Company's Bylaws provide for staggering the terms of Directors in accordance with Indiana Code Section 23-1-33-6. The following is a listing of persons serving as Directors at December 31, 2008:

Name & Residence**Principal Occupation**

Robert E. Marley
Seymour, Indiana

General Manager & CEO
Jackson Jennings Cooperative

Robert J. Sunderman
New London, Ohio

General Manager & CEO
Sunrise Cooperative, Inc.

John Graham
Avon, Indiana

CFO
Co-Alliance, LLC

Jeff Mize
Columbia City, Indiana

CEO
Ag Plus, Inc.

Stan Hicks
Richmond, Indiana

CEO
Harvest Land Cooperative, Inc.

Officers

The Company's Articles of Incorporation state that the officers of the corporation shall be a Chairman, President, Vice-President, Secretary, and Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers deemed necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except the offices of President and Vice-President. The following is a list of key officers and their respective titles as of December 31, 2008:

Name**Office**

Robert E. Marley

President & Chairman

William G. Willard III

Secretary

P. Dean Denhart

Treasurer & Executive Director

Robert J. Sunderman

Vice-President

CONFLICT OF INTEREST

The Company requires officers and Directors to review and sign Conflict of Interest statements on an annual basis. Based on a review of the signed statements for each year of the examination period, officers and Directors listed in the management and control section of this report have reviewed and signed their statements annually.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each Director signed an "Oath of Office" when elected.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Articles of Incorporation or Bylaws during the examination period.

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

Service Agreements

The Company has a Consulting and Service Agreement with Daseke Insurance Agency, Inc. (Daseke) effective January 1, 2006, whereby Daseke acts as the Company's consultant in all things regarding the insurance business. Daseke provides professional, clerical, and secretarial employees, in addition to space at their office. Daseke provides claims administration for the Company and gives advice to the Executive Director regarding the Company's compliance with laws and regulations. During 2008, the Company paid \$50,000 for services received under this agreement.

The Company has a Consulting Agreement with Double D Consulting, LLC (DD) effective January 1, 2003. DD has been retained to serve as the Company's Executive Director. DD is responsible for all the day-to-day operations, investing, member relations, and marketing. During 2008, DD was paid \$100,000 by the Company for services performed under this agreement.

FIDELITY BOND

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Fidelity & Deposit Company of Maryland. The bond has blanket coverage of \$500,000 with a \$5,000 deductible. The fidelity bond exceeds the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2008, including, but not limited to, directors & officers, commercial, and general liability coverages.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposit comprised of United States Treasury Notes and Bonds at December 31, 2008:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 101,107	\$ 100,000
Total Deposits	<u>\$ 101,107</u>	<u>\$ 100,000</u>

REINSURANCE

As an RRG, the Company assumes no reinsurance.

In lieu of a reinsurance treaty, the Company is protected against excessive loss under an insurance policy written through Greenwich Insurance Company, a subsidiary of XL Environmental, Inc. Policy limits and coverages under the policy correspond to those provided by the Company to its members, except for the difference between the deductibles applied by the Company to its members and the deductible the Company carries under the insurance policy.

RESERVES

Al J. Rhodes, ACAS, MAAA, was appointed by the Board of Directors to render an opinion on the statutory-basis loss and loss adjustment expense reserves of the Company for all years throughout the examination process. The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves, as shown in the Annual Statement of the Company as prepared for filing with the state regulatory officials. In forming the opinion, information prepared by Dean Denhart was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary. The 2008 opinion stated that the balances of loss and loss adjustment expense reserves 1) meet the requirements of the IDOI – State of Indiana; 2) are computed in accordance with accepted loss reserving standards and principles; and 3) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements. During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2007 and December 31, 2008 were agreed to their respective Annual Statements. The Annual Statements for years ended December 31, 2004 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Company's accounting procedures, practices, and account records were satisfactory.

AGRI INSURANCE EXCHANGE RRG

FINANCIAL STATEMENTS

Assets

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Assets:				
Bonds	\$ 3,624,313	\$ -	\$ 3,624,313	\$ 2,802,280
Stocks:				
Common stocks	4,546,240	-	4,546,240	6,960,577
Cash, cash equivalents and short-term investments	1,271,463	-	1,271,463	1,145,307
Subtotals, cash and invested assets	\$ 9,442,016	\$ -	\$ 9,442,016	\$ 10,908,164
Investment income due and accrued	43,452	-	43,452	22,521
Current federal and foreign income tax recoverable and interest thereon	140,900	-	140,900	-
Aggregate write-ins for other than invested assets	17,500	-	17,500	-
Total Assets	<u>\$ 9,643,868</u>	<u>\$ -</u>	<u>\$ 9,643,868</u>	<u>\$ 10,930,685</u>

AGRI INSURANCE EXCHANGE RRG

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	\$ 1,856,000	\$ -	\$ 1,856,000	\$ 1,215,000
Loss adjustment expenses	-	-	-	9,230
Other expenses	44,743	-	44,743	46,965
Taxes, licenses and fees	13,699	-	13,699	20,487
Current federal and foreign income taxes	-	-	-	33,000
Net deferred tax liability	-	-	-	182,000
Advance premium	131,080	-	131,080	59,574
Total liabilities	\$ 2,045,522	\$ -	\$ 2,045,522	\$ 1,566,256
Gross paid in and contributed surplus	\$ 8,654,337	\$ -	\$ 8,654,337	\$ 8,228,253
Unassigned funds (surplus)	(1,055,991)	-	(1,055,991)	1,136,176
Surplus as regards policyholders	\$ 7,598,346	\$ -	\$ 7,598,346	\$ 9,364,429
Total liabilities, capital and surplus	\$ 9,643,868	\$ -	\$ 9,643,868	\$ 10,930,685

AGRI INSURANCE EXCHANGE RRG

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2008

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
UNDERWRITING INCOME				
Premiums earned	\$ 391,272	\$ -	\$ 391,272	\$ 376,894
DEDUCTIONS				
Losses incurred	\$ 837,682	\$ -	\$ 837,682	\$ 492,623
Loss adjustment expenses incurred	(648)	-	(648)	54,372
Other underwriting expenses incurred	226,043	-	226,043	238,217
Aggregate write-ins for underwriting deductions	187,501	-	187,501	187,503
Total underwriting deductions	\$ 1,250,578	\$ -	\$ 1,250,578	\$ 972,715
Net underwriting gain (loss)	\$ (859,306)	\$ -	\$ (859,306)	\$ (595,821)
INVESTMENT INCOME				
Net investment income earned	\$ 368,332	\$ -	\$ 368,332	\$ 714,996
Net realized capital gains (losses)	(9,863)	-	(9,863)	288
Net investment gain (loss)	\$ 358,469	\$ -	\$ 358,469	\$ 715,284
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (500,837)	\$ -	\$ (500,837)	\$ 119,463
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ (500,837)	\$ -	\$ (500,837)	\$ 119,463
Federal and foreign income taxes incurred	(84,900)	-	(84,900)	56,800
Net Income	\$ (415,937)	\$ -	\$ (415,937)	\$ 62,663
CAPITAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31 prior year	\$ 9,364,429	\$ -	\$ 9,364,429	\$ 9,160,675
Net income	\$ (415,937)	\$ -	\$ (415,937)	\$ 62,663
Change in net unrealized capital gains or (losses)	(2,145,731)	-	(2,145,731)	(30,820)
Change in net deferred income tax	691,000	-	691,000	34,000
Change in nonadmitted assets	(321,499)	-	(321,499)	(375,002)
Surplus adjustments:				
Paid in	426,084	-	426,084	512,913
Change in surplus as regards policyholders for the year	\$ (1,766,083)	\$ -	\$ (1,766,083)	\$ 203,754
Surplus as regards policyholders, December 31 current year	\$ 7,598,346	\$ -	\$ 7,598,346	\$ 9,364,429

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

SUBSEQUENT EVENTS

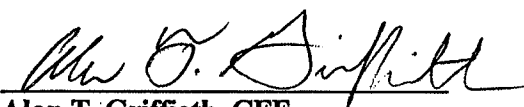
There were no events occurring subsequent to the completion of fieldwork and prior to the issuance of this report that were deemed in need of disclosure.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding Report of Examination of Agri Insurance Exchange Risk Retention Group as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Daniel P. McBay, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of Agri Insurance Exchange Risk Retention Group.



Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance